

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD
ENDED JUNE 30, 2003**

or

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE
EXCHANGE ACT**

COMMISSION FILE NUMBER: 0-11933

ACCESS INTERNATIONAL INC.

(formerly ACCESS Inc.)

(Exact name of small business issuer as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or
organization)

85-0294536

(I.R.S. Employer Identification No.)

**3208 Commander Drive
Carrollton, Texas 75006
(972) 407-6080**

(Address, including telephone number and area code, of principal executive offices)

Check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Number of shares of common stock outstanding on August 1, 2003: 19,403,649

Transitional Small Business Disclosure Format: Yes No

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

**AXCESS INC.
CONSOLIDATED BALANCE SHEETS**

	June 30, 2003	December 31, 2002
	<u>(Unaudited)</u>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,053,256	\$ 33,249
Restricted Cash	—	140,000
Accounts receivable - trade, net of allowance for doubtful accounts	70,286	85,379
Inventory	256,554	231,619
Prepaid expenses and other	71,179	93,944
Total current assets	1,451,275	584,191
Property, plant and equipment, net	116,475	213,794
Intellectual property, net	298,474	447,245
Other assets	—	29,384
Total assets	\$ 1,866,224	\$ 1,274,614
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 1,221,947	\$ 1,404,060
Other accrued liabilities	1,852,848	1,501,727
Restricted cash for future funding	—	140,000
Notes payable:		
Stockholders, includes \$6,477,979 in default	10,405,227	10,405,227
Other	15,254	65,844
Dividends payable	654,780	455,285
Total current liabilities	14,150,056	13,972,143
Note payable to stockholder	1,305,000	1,000,000
Discount on convertible debt	(974,568)	(956,148)
Total liabilities	14,480,488	14,015,995
Stockholders' equity (deficit):		
Convertible preferred stock, 7,000,000 shares authorized; 11,976 shares issued and outstanding in 2003 and 2002; \$4,872,847 aggregate liquidation preference in 2003 and 2002	4,872,847	4,872,847

Common stock, \$.01 par value, 50,000,000 shares authorized in 2003 and 2002; 19,403,649 shares issued and outstanding in 2003 and 16,566,148 shares issued and outstanding in 2002	194,037	165,662
Non-voting convertible common stock, \$.01 par value, 2,250,000 shares authorized; no shares issued or outstanding in 2003 or 2002, convertible into common stock on a one for one share basis	—	—
Additional paid-in capital	125,982,350	123,768,261
Note receivable and accrued interest due from stockholder	(4,711,915)	(4,711,915)
Accumulated deficit	<u>(138,951,583)</u>	<u>(136,836,236)</u>
Total stockholders' deficit	<u>(12,614,264)</u>	<u>(12,741,381)</u>
Total liabilities and stockholders' deficit	<u>\$ 1,866,224</u>	<u>\$ 1,274,614</u>

See accompanying notes to unaudited financial statements.

AXCESS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Sales	\$ 245,427	\$ 407,695	\$ 535,991	\$ 784,652
Cost of sales	<u>160,278</u>	<u>341,579</u>	<u>334,990</u>	<u>628,573</u>
Gross profit	85,149	66,116	201,001	156,079
Expenses:				
Research and development	157,753	517,280	294,146	1,140,878
General and administrative	331,902	464,244	590,469	875,085
Selling and marketing	49,937	354,884	138,534	816,673
Depreciation and amortization	<u>113,789</u>	<u>141,229</u>	<u>232,951</u>	<u>314,221</u>
Operating expenses	<u>653,381</u>	<u>1,477,637</u>	<u>1,256,100</u>	<u>3,146,857</u>
Loss from operations	(568,232)	(1,411,521)	(1,055,099)	(2,990,778)
Other income (expense):				

Interest expense	(306,353)	(286,640)	(525,993)	(614,994)
Interest income	—	80,889	—	160,889
Other	137,299	(998)	140,091	(998)
Other expense, net	(169,054)	(206,749)	(385,902)	(455,103)
Net loss	(737,286)	(1,618,270)	(1,441,001)	(3,445,881)
Preferred stock dividend requirements	(575,153)	(112,777)	(674,349)	(222,374)
Net loss applicable to common stock	<u>\$ (1,212,141)</u>	<u>\$ (1,731,047)</u>	<u>\$ (2,115,350)</u>	<u>\$ (3,668,255)</u>
Basic and diluted net loss per share	<u>\$ (0.07)</u>	<u>\$ (0.11)</u>	<u>\$ (0.12)</u>	<u>\$ (0.23)</u>
Weighted average shares of common stock outstanding	<u>17,698,593</u>	<u>15,848,179</u>	<u>17,224,325</u>	<u>15,848,179</u>

See accompanying notes to unaudited financial statements.

AXCESS, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2003	2002
Cash flows from operating activities:		
Net loss	\$ (1,441,001)	\$ (3,445,881)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	232,951	314,221
Amortization of financing discount and issuance costs	211,097	68,849
Shares issued for services rendered	80,000	—
Loss on disposal of assets	13,139	—
Changes in operating assets and liabilities:		
Accounts receivable	15,093	(234,307)
Inventory	(24,935)	324,685
Prepaid expenses and other	20,236	245,922
Other assets	29,384	(150)
Accounts payable	(182,113)	(217,016)
Other liabilities	351,121	700,655
Net cash used by operating activities	<u>(695,028)</u>	<u>(2,243,022)</u>

Cash flow from financing activities:		
Borrowings under financing agreements	305,000	2,419,000
Principal payments on financing agreements	(50,590)	(63,130)
Net proceeds from issuance of common and preferred stock	1,460,625	—
Net cash provided by financing activities	<u>1,715,035</u>	<u>2,355,870</u>
Net increase (decrease) in cash and cash equivalents	1,020,007	112,848
Cash and cash equivalents, beginning of period	33,249	—
Cash and cash equivalents, end of period	<u>1,053,256</u>	<u>112,848</u>
Supplemental information:		
Cash paid during the year for interest	<u>\$ —</u>	<u>\$ —</u>

AXCESS
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

(1) Summary of Significant Accounting Policies

(a) Description of Business

The Company provides advanced security and asset management systems, which locate, identify, track, monitor and protect assets. The main applications of the Company's systems are security video through closed circuit television (called CCTV), personnel and vehicle access control, and automatic asset tracking and protection. The Company provides solutions in the recently identified homeland security markets such as air and ground transportation, water treatment facilities, oil and gas, power plants, as well as in the markets for data centers, retail / convenience stores, education, healthcare, and corporate offices. AXCESS utilizes two patented and integrated technologies: network-based radio frequency identification (RFID) and tagging and streaming video. Both application and browser-based software options deliver critical real-time information tailored to each end user via the enterprise network or Internet, also providing custom alerts in the form of streaming video, e-mail, or messages delivered to wireless devices.

The Company's business plan for 2003 is predicated principally upon the successful marketing of its RFID and digital video products. During 2002, operating activities utilized approximately \$3.2 million of cash. During the second quarter of 2003 the Company raised a net of \$1,460,625 of additional working capital through an exempt Preferred Stock offering. The Preferred Stock is designated as 2003 Preferred and each \$75,000 unit consisted of 100,000 shares of Preferred Stock bearing a 7% dividend approximately 15,000 shares of Common Stock, and 100,000 warrants to purchase the Company's common stock exercisable for two years at \$1.00 per share. However, even with the additional funding, the Company anticipates that its existing working capital resources and revenues from operations will not be adequate to satisfy its funding requirements in 2003.

The future results of operations and financial condition of the Company will be impacted by the following factors, among others: changes from anticipated levels of sales, access to capital, future national or regional economic and competitive conditions, changes in relationships with customers, difficulties in developing and marketing new products, marketing existing products, customer acceptance of existing and new products, validity of patents,

technological change, dependence on key personnel, availability of key component parts, dependence on third party manufacturers, vendors, contractors, product liability, casualty to or other disruption of the production facilities, delays and disruptions in the shipment of the Company's products, and the ability of the Company to meet its stated business goals.

If the Company's losses or lack of operating capital continue, the Company will have to obtain funds to meet its cash requirements through business alliances, such as strategic or financial transactions with third parties, the sale of securities or other financing arrangements, or the Company may be required to curtail its operations, seek a merger partner, or seek protection under federal bankruptcy laws. Any of the foregoing may be on terms that are unfavorable to the Company or disadvantageous to existing stockholders. In addition, no assurance may be given that the Company will be successful in raising additional funds or entering into business alliances.

(b) Company Organization and Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company has received working capital in various forms from Amphion Ventures, L. P. and affiliates of Amphion Ventures, L. P. including Amphion Partners, Amphion Investments LLC, Antiope Partners, VennWorks LLC (formerly incuVest LLC), Amphion Capital Management, and NVW, LLC (collectively, the "Amphion Group"). Following the conversion of the 2003 preferred stock held by the Amphion Group into common stock in 2003, the Amphion Group owns approximately 67% of the outstanding voting stock of the Company.

(c) Inventory

Inventory is valued at the lower of cost or market using the first-in, first-out method. Inventory was comprised of the following at June 30, 2003 and December 31, 2002:

	<u>June 30,</u> <u>2003</u>	<u>December 31,</u> <u>2002</u>
Raw materials	\$ 140,750	\$ 162,806
Work-in-process	2,398	3,370
Finished goods	113,406	65,443
	<u>\$ 256,554</u>	<u>\$ 231,619</u>

(d) Stock Options

The Company accounts for its stock-based compensation plan under Accounting Principles Board ("ABP") Opinion No. 25, Accounting for Stock Issued to Employees. The pro forma information below is based on provisions of Statement of Financial Accounting Standard ("FAS") No. 123, Accounting for Stock-Based Compensation, as amended by FAS 148, Accounting for Stock-Based Compensation – Transition and Disclosure, issued in December 2002.

Three Months Ended
June 30,

Six Months Ended
June 30,

	2003	2002	2003	2002
Pro forma impact of fair value method (FAS 148)				
Reported net loss attributed to common stock	\$ (837,584)	\$ (1,731,047)	\$ (1,640,495)	\$ (3,668,255)
Less: fair value of employee stock compensation	(105,206)	(47,128)	(224,628)	(97,128)
Pro forma net loss attributed to common stock	<u>(942,790)</u>	<u>(1,778,175)</u>	<u>(1,865,123)</u>	<u>(3,765,383)</u>
Loss per common share				
Basic and diluted net loss per share – as reported	\$ (0.05)	\$ (0.11)	\$ (0.10)	\$ (0.23)
Basic and diluted net loss per share – pro forma	\$ (0.05)	\$ (0.11)	\$ (0.11)	\$ (0.24)
Weighted average Black-Scholes fair value assumptions				
Risk free interest rate	5.0%	5.0%	5.0%	5.0%
Expected life	10 years	10 years	10 years	10 years
Expected volatility	88% -92%	88% - 92%	88% - 92%	88% - 92%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

(e) Recent Accounting Pronouncements

In July 2002, the FASB issued Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS No. 146). SFAS 146 nullifies FASB Emerging Issues Task Force (EITF) Issue No. 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)”. It requires that a liability be recognized for those costs only when the liability is incurred, that is, when it meets the definition of a liability in the FASB’s conceptual framework. SFAS No. 146 also establishes fair value as the objective for initial measurement of liabilities related to exit or disposal activities. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with earlier adoption encouraged. The adoption of SFAS 146 did not have a material impact on its financial position or results from operations.

In December 2002, the FASB issued Statement of Financial Accounting Standards 148, *Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement 123* (“SFAS 148”). For entities that change their accounting for stock-based compensation from the intrinsic method to the fair value method under SFAS 123, the fair value method is to be applied prospectively to those awards granted after the beginning of the period of adoption (the prospective method). The amendment permits two additional transition methods for adoption of the fair value method. In addition to the prospective method, the entity can choose to either (i) restate all periods presented (retroactive restatement method) or (ii) recognize compensation cost from the beginning of the fiscal year of adoption as if the fair value method had been used to account for awards (modified prospective method). For fiscal years beginning after December 15, 2003, the prospective method will no longer be allowed. The Company currently accounts for its stock-based compensation using the intrinsic value method as proscribed by APB No. 25, *Accounting for Stock Issued to Employees*, and plans to continue using this method to account for stock options. Therefore, it does not intend to adopt the transition requirements as specified in SFAS 148.

(2) Contingencies

Pioneer Standard Electronics, Incorporated (“Pioneer”), filed a lawsuit against the Company in the county court in Dallas County, Texas on September 28, 2001. Pioneer was a vendor to the Company and seeks damages of \$81,533 for non-payment for services provided. During the first quarter of 2003, Pioneer was granted a judgment for the entire amount. The Company has reached a settlement with Pioneer and is making payments.

The Company is also engaged in a number of lawsuits with approximately fifteen vendors who claim they are owed amounts from \$500 to \$45,000, which aggregate in total \$251,117. The Company is currently defending or seeking to settle each of the vendor’s claims. At June 30, 2003, the Company has accrued the delinquent amounts payable for the claims described in this paragraph.

(3) Preferred Stock

The Company has authorized 7,000,000 shares of convertible preferred stock, of which shares designated in five series have been issued. Information with respect to the series of preferred stock outstanding at each balance sheet date is summarized below.

	Series C	Series I	Series J	Series 1999	2003 Series
Number of shares authorized	1,500,000	2,500	2,500	2,500	2,133,333
Stated value	\$ 30.20	\$ 10,000	\$ 10,000	\$ 10,000	\$ 1.00
Number of shares issued and outstanding:					
December 31, 2002	11,522	125	177	152	—
June 30, 2003	11,522	125	177	152	—
Conversion ratio (or conversion price) of preferred shares into common	1 to 1 into voting common stock	\$ 2.51 into voting common stock	\$ 2.51 into non-voting common stock	\$ 2.51 into voting common stock	1 to 1 into voting common stock
Liquidation preference	Stated value plus accrued dividends	Stated value plus accrued dividends	Stated value plus accrued dividends	Stated value plus accrued dividends	Stated value plus accrued dividends
Dividend rights	10% per annum, cumulative	8% per annum, cumulative	8% per annum, cumulative	8% per annum, cumulative	7% per annum, cumulative

The Company’s non-voting common stock may be converted to voting common stock at any time by the holder thereof, on a one-to-one basis.

The holders of the Company’s Series C Preferred Stock are entitled to receive quarterly dividends on each such share held at the annual rate of 10% of the original issue price of each share payable in arrears, when, as and if declared by the Company’s board of directors, in cash or additional shares of preferred stock at the option of the holder. During

the three months ended June 30, 2003 there were \$8,793 of dividends accrued. Dividends payable for Series C Preferred Stock were \$70,541 and \$53,051 at June 30, 2003 and December 31, 2002, respectively.

The holders of Series I Preferred Stock, Series J Preferred Stock, and Series 1999 Voting Preferred Stock are entitled to receive semi-annual dividends on each such share at the annual rate of 8% of the original issue price of each share payable in arrears, when, as and if declared by the Company's board of directors, in cash or additional shares of preferred stock. Shares of Series I Preferred Stock, Series J Preferred Stock and Series 1999 Preferred Stock are convertible into shares of common stock at a conversion price of \$2.51 per share. During the three months ended June 30, 2003 there were \$25,315, \$35,544 and \$30,647 of dividends accrued for Series I Preferred Stock, Series J Preferred Stock and Series 1999 Voting Preferred Stock, respectively. Dividends payable of \$179,597 and \$129,245 of dividends payable for Series I Preferred Stock at June 30, 2003 and December 31, 2002, respectively. Dividends payable of \$220,763 and \$150,067 of dividends payable for Series J Preferred Stock at June 30, 2003 and December 31, 2002, respectively. Dividends payable of \$183,878 and \$122,922 of dividends payable for Series 1999 Voting Preferred Stock at June 30, 2003 and December 31, 2002, respectively.

The Company completed a \$1,537,500 exempt Preferred Stock Offering during May of 2003. The Preferred Stock is designated as 2003 Preferred and each \$75,000 unit consisted of 100,000 shares of Preferred Stock bearing a 7% dividend approximately 15,000 shares of Common Stock, and 100,000 warrants to purchase the Company's common stock exercisable for two years at \$1.00 per share. The offering also included an automatic conversion into Common Stock on a one for one basis if the closing twenty-day average stock price is over \$2.00. On June 5, 2003 the closing twenty-day average was at \$2.02 and the 2003 Preferred converted to 2,050,001 shares of Common Stock.

(4) Notes Payable to Stockholders

The Company entered into a 6.75% convertible note with Amphion Investments LLC dated January 25, 2002. During the three months ended June 30, 2003, the Company repaid \$50,000 under this note. The principal outstanding under this note may be converted into securities of the Company at the option of Amphion Investments. The borrowings are unsecured and are due and payable on demand by Amphion Investments. The Company repaid this note during the three months ended June 30, 2003.

(5) Significant Customers

During the three months ended June 30, 2003 the Company had three customers that accounted for 37% of the overall revenue, three customers accounted for 83% of the digital video product sales and one customer accounted for 18% of the RFID product sales. During the three months ended June 30, 2002 the Company had two customers that accounted for 41% of the overall revenue, two customers accounted for 55% of the digital video product sales and one customer accounted for 15% of the RFID product sales.

During the six months ended June 30, 2003 the Company had two customers that accounted for 29% of the overall revenue, three customers accounted for 76% of the digital video product sales and two customers accounted for 22% of the RFID product sales. During the six months ended June 30, 2002 the Company had two customers that accounted for 32% of the overall revenue, two customers accounted for 40% of the digital video product sales and one customer accounted for 22% of the RFID product sales.

Item 2. Management's Discussion and Analysis or Plan of Operation.

Forward-Looking Statements

This quarterly report on Form 10-QSB includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended, which can be identified by the use of forward-looking terminology such as, "may," "expect," "could," "plan," "seek," "anticipate," "estimate," or "continue" or the negative thereof or other variations thereon or comparable terminology.

These forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from those referred to in the forward-looking statements and are made pursuant to the "safe-harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements are made based on management's current expectations or beliefs as well as assumptions made by, and information currently available to, management.

A variety of factors could cause actual results to differ materially from those anticipated in the Company's forward-looking statements, including the following factors: changes from anticipated levels of sales, access to capital, future national or regional economic and competitive conditions, changes in relationships with customers, difficulties in developing and marketing new products, marketing existing products, customer acceptance of existing and new products, validity of patents, technological change, dependence on key personnel, availability of key component parts, dependence on third party manufacturers, vendors, contractors, product liability, casualty to or other disruption of the production facilities, delays and disruptions in the shipment of the Company's product, and the ability of the Company to meet its stated business goals. For a detailed discussion of these and other cautionary statements and factors that could cause actual results to differ from the Company's forward-looking statements, please refer to the Company's filings with the Securities and Exchange Commission, especially "Item 1. Description of Business" (including the "Risk Factors" section of Item 1) and "Item 6. Management's Discussion and Analysis or Plan of Operation" of the Company's 2002 Annual Report on Form 10-KSB.

Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Company does not undertake any obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission.

Recent Developments: Going Concern and Liquidity Problems

Our auditors have included an explanatory paragraph in their audit opinion with respect to our consolidated financial statements at December 31, 2002. The paragraph states that our recurring losses from operations and resulting continued dependence on access to external financing raise substantial doubts about our ability to continue as a going concern. Furthermore, the factors leading to and the existence of the explanatory paragraph may adversely affect our relationship with customers and suppliers and have an adverse effect on our ability to obtain financing.

We do not have sufficient working capital to sustain our operations. We have been unable to generate sufficient revenues to sustain our operations. We will have to obtain funds to meet our cash requirements through business

alliances, such as strategic or financial transactions with third parties, the sale of securities or other financing arrangements, or we may be required to curtail our operations, seek a merger partner, or seek protection under federal bankruptcy laws. Any of the foregoing may be on terms that are unfavorable to us or disadvantageous to existing stockholders. In addition, no assurance may be given that the Company will be successful in raising additional funds or entering into business alliances.

Liquidity and Capital Resources

Since inception, the Company has utilized the proceeds from a number of public and private sales of its equity securities, the exercise of options and warrants and more recently, convertible debt and short-term bridge loans from stockholders to meet its working capital requirements. At June 30, 2003, the Company had a working capital deficit of \$12,698,781.

The Company's operations continued to generate losses in 2003. The Company's cash increased \$1,020,003 during the six months ended June 30, 2003 with operating activities using \$695,028 of cash. The Company funded operations primarily through borrowings from Amphion and other accredited investors and proceeds from the 2003 Preferred stock issued to accredited investors with financing activities providing net cash of \$1,715,035. No assurance can be given that such sources will continue to provide funding to the Company. The Company's business plan for 2003 is predicated principally upon the successful marketing of its RFID and digital video products. The Company anticipates that its existing working capital resources and revenues from operations will not be adequate to satisfy its funding requirements in 2003. During the second quarter of 2003 the Company raised a net of \$1,460,625 of additional working capital through an exempt Preferred Stock offering. The Preferred Stock is designated as 2003 Preferred and each \$75,000 unit consisted of 100,000 shares of Preferred Stock bearing a 7% dividend approximately 15,000 shares of Common Stock and 100,000 warrants to purchase the Company's common stock exercisable for two years at \$1.00 per share.

The Company's working capital requirements depend upon many factors, including the extent and timing of the Company's product sales, the Company's operating results, the status of competitive products, and actual expenditures and revenues compared to its business plan. The Company is currently experiencing declining liquidity, including negative working capital balances, losses from operations and negative cash flows, which makes it difficult for the Company to meet its current cash requirements, including payments to vendors, and may jeopardize the Company's ability to continue as a going concern. The Company intends to address its liquidity problems by controlling costs, seeking additional funding (through capital raising transactions and business alliances) and maintaining focus on revenues and collections.

If the Company's losses or lack of operating capital continue, the Company will have to obtain funds to meet its cash requirements through business alliances, such as strategic or financial transactions with third parties, the sale of securities or other financing arrangements, or the Company may be required to curtail its operations, seek a merger partner, or seek protection under federal bankruptcy laws. Any of the foregoing may be on terms that are unfavorable to the Company or disadvantageous to existing stockholders. In addition, no assurance may be given that the Company will be successful in raising additional funds or entering into business alliances.

The Company entered into a 6.75% convertible note with Amphion Investments LLC dated January 25, 2002. During the three months ended March 31, 2003, the Company borrowed \$50,000 under this note. The principal outstanding

under this note may be converted into securities of the Company at the option of Amphion Investments. The borrowings are unsecured and are due and payable on demand by Amphion Investments. The Company repaid this note during the three months ended June 30, 2003.

On January 17, 2003, the Company entered into a bridge financing agreement with ten accredited investors for the sale and issuance of 3.05 "units" to the investors for an aggregate purchase price of \$305,000. Each unit consists of a convertible promissory note in the amount of \$100,000 and 50,000 unregistered shares of the Company's common stock.

Pursuant to the bridge financing agreement, the Company is required to use reasonable efforts to register the shares of common stock comprising the units within 60 days after the execution of the bridge financing agreement, or as soon as practicable thereafter. The Company has not registered these shares of common stock yet. Upon registration of the common stock, each investor may not sell more than one-third of the common stock comprising the units during any calendar month. The convertible promissory notes comprising the units bear interest at an annual rate of 7% and mature on January 17, 2006. On each of January 17, 2004, January 17, 2005 and January 17, 2006, the investors have the option to convert one-third of the principal amount of the notes into common stock of the Company. The conversion price of the notes is initially 65% of the average closing price of a share of the Company's common stock for the 20 trading days preceding the given anniversary date of the notes. The maximum conversion price shall be \$2.00 per share and the minimum conversion price shall be \$0.50 per share. The conversion price will be subject to adjustment from time to time to reflect any reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or similar change in the Company's shares of common stock. The notes may be prepaid in whole or in part by the Company without premium or penalty.

In connection with this bridge financing, the Company recorded a \$224,259 debt discount due to the value of the equity consideration and beneficial conversion of the financing, pursuant to the guidance issued by the Emerging Issues Task Force. The debt discount will be amortized using the effective interest method over the three-year life of the agreement.

Notes Currently In Default

On September 30, 1999, the Company signed a 10% convertible note maturing September 30, 2002 ("Amphion Convertible Note"), under which the Company could borrow up to \$6,000,000 from Amphion Ventures. As of June 30, 2003 the balance under this note was \$2, 477,979. The balance of the indebtedness under the 10% convertible note issued was due in full by the Company on September 30, 2002 and, as of June 30, 2003, this note is in default. The Company is negotiating with Amphion Ventures to extend the term of the notes. Amphion Ventures has not pursued any collection activities relating to this note. However, no assurances can be given that they will not in the future.

On July 28, 1999, the Company acquired substantially all of the assets of Prism Video, Inc. ("Prism"), a privately held corporation, and agreed to pay \$4,000,000 to "Prism" on December 31, 2002. The balance of the indebtedness under the Prism note issued was due in full by the Company on December 31, 2002; as of June 30, 2003 this note is in default. The Company is negotiating with Prism to extend the term of the notes. The note payable has a face amount of \$4,000,000 and is collateralized by the Company's \$3,902,375 note receivable from Amphion Ventures, L. P. ("Amphion Ventures"). Pursuant to the Asset Purchase Agreement between AXCESS and Prism, AXCESS assigned Prism all payments of principal to be made by Amphion Ventures under the note receivable until the balance of the note receivable is paid in full or the balance due under the note payable to Prism is paid in full, whichever occurs first. Prism has not pursued any collection activities relating to the collection of this note. However, no assurances can be given that they will not in the future.

Results of Operations

Three Months Ended June 30, 2003 Compared to Three Months Ended June 30, 2002

Sales and Gross Profit. Sales for the three months ended June 30, 2003 were \$245,427 and for the three months ended June 30, 2002 were \$407,695, on which a gross profit of \$85,149 and \$66,116 was realized, respectively. The decrease in sales was due to the lack of financing for the Company and the inability to fulfill orders. The Company has a backlog of sales orders of over \$130,000 as of June 30, 2003. The Company would be able to fulfill those orders within 90 – 120 days. However, there can be no assurances, due to the timing of the financing, that all of those sales orders are still valid. The margin improvement is driven by a reduction of the production staff and lower inventory adjustments due to the Company's move towards contract manufacturing.

Radio frequency identification (RFID) product sales were \$158,658 for the three months ended June 30, 2003 and \$141,959 for the three months ended June 30, 2002. Cost of sales was \$111,311 for the three months ended June 30, 2003 and \$129,208 for the three months ended June 30, 2002. As a result, gross profits from RFID products were \$47,347 for the three months ended June 30, 2003 and \$12,751 for the three months ended June 30, 2002.

Digital video product sales were \$86,769 for the three months ended June 30, 2003 and \$265,736 for the three months ended June 30, 2002. Cost of sales was \$48,968 for the three months ended June 30, 2003 and \$212,372 for the three months ended June 30, 2002. As a result, gross profits from digital video products were \$37,801 for the three months ended June 30, 2003 and \$53,364 for the three months ended June 30, 2002.

Operating Expenses. Operating expenses were \$653,381 for the three months ended June 30, 2003 and \$1,477,637 for the three months ended June 30, 2002. This decrease was due to cost reduction programs implemented during 2002 and continuing through 2003 including a staffing reduction, fewer marketing expenditures and the completion of several research and development projects.

Research and development expenses were \$157,753 for the three months ended June 30, 2003 and \$517,280 for the three months ended June 30, 2002. The decrease is a result of the completion of the integration of some of the video and RFID products allowing for a reduction of employees, the closing a facility in Georgia and the elimination of certain leased equipment.

Corporate general and administrative expenses were \$331,902 for the three months ended June 30, 2003 and \$464,244 for the three months ended June 30, 2002. During the three months ended June 30, 2003 the Company hired a firm to assist in their investor relation activity and experienced an increase in their cost of insurance. However, the Company was able to decrease their overall cost of expense. This decrease can be attributed to a reduction in head count, elimination of contract labor, lower rent with the closure of half of the Texas facility and a reduction of outside legal and accounting service fees.

Selling and marketing expenses were \$49,937 for the three months ended June 30, 2003 and \$354,884 for the three months ended June 30, 2002. The decrease was caused by the Company's strategic shift away from a direct selling (our sales people contacting the end users) approach and an increased reliance on an indirect (focus on us selling to the integrators who sell to the end users) marketing approach. The strategic shift allowed the company to decrease the headcount and lower the advertising. The indirect sales model allows the Company to address multiple industry

segments generically, including manufacturing, wholesale / distribution, retail, services, government, education and finance. The indirect sales model fits the characteristics of the Company's product portfolio with other products, which become system solutions that require custom site planning and installation. By working directly with established marketing channel partners, this indirect model also gives the Company the flexibility to introduce new products and application as they are developed.

Depreciation and amortization expenses were \$113,789 for the three months ended June 30, 2003 and \$141,229 for the three months ended June 30, 2002. The decrease is related to lower depreciation expense as a result of the age of the equipment and the closing of the Georgia facility.

Other expenses, net. Other expenses, net, were \$169,054 for the three months ended June 30, 2003 and \$206,749 for the three months ended June 30, 2002. Interest income was \$80,889 lower during the three months ended June 30, 2003, compared to the three months ended June 30, 2002. Interest expense was \$19,713 higher in the three months ended June 30, 2003 compared to the three months ended June 30, 2002, reflecting an increase in the amortization of the debt discount related to the Convertible notes issued in June 2002 and January 2003. The Company also was able to settle several accounts payable issues relating to prior periods at a discount from the accrued amounts, which resulted in a \$138,299 improvement in Other.

Net Loss. Net loss was \$737,286 for the three months ended June 30, 2003, compared to a loss of \$1,618,270 for the three months ended June 30, 2002. The decrease is due primarily to improved gross margins as a result of lower production staffing and lower inventory adjustments, headcount reductions across all departments, reduced rent due to the Georgia facility being closed, a reduction of outside services and gains on settlements of account payables.

Preferred Stock dividend requirements. Preferred Stock dividend requirements were \$575,153 for the three months ended June 30, 2003 and \$112,777 for the three months ended June 30, 2002. This increase was due to the recording of the beneficial conversion discount of \$474,855 for the 2003 Preferred Stock converted during the quarter.

Six Months Ended June 30, 2003 Compared to Six Months Ended June 30, 2002

Sales and Gross Profit. Sales for the six months ended June 30, 2003 were \$535,991 and for the six months ended March 31, 2002 were \$784,652, on which a gross profit of \$201,001 and \$156,079 was realized, respectively. The decrease in sales was due to the lack of financing for the Company and the inability to fulfill orders. The Company has a backlog of sales orders of over \$130,000 as of June 30, 2003. The Company would be able to fulfill those orders within 90 – 120 days. However, there can be no assurances, due to the timing of the financing, that all of those sales orders are still valid. The margin improvement is driven by a reduction of the production staff and lower inventory adjustments due to the Company's move towards contract manufacturing.

Radio frequency identification (RFID) product sales were \$284,658 for the six months ended June 30, 2003 and \$338,848 for the six months ended June 30, 2002. Cost of sales was \$192,246 for the six months ended June 30, 2003 and \$280,855 for the six months ended June 30, 2002. As a result, gross profits from RFID products were \$92,724 for the six months ended June 30, 2003 and \$57,993 for the six months ended June 30, 2002.

Digital video product sales were \$251,027 for the six months ended June 30, 2003 and \$445,804 for the six months ended June 30, 2002. Cost of sales was \$142,744 for the six months ended June 30, 2003 and \$347,719 for the six months ended June 30, 2002. As a result, gross profits from digital video products were \$108,283 for the six months

ended June 30, 2003 and \$98,085 for the six months ended June 30, 2002.

Operating Expenses. Operating expenses were \$1,256,100 for the six months ended June 30, 2003 and \$3,146,857 for the six months ended June 30, 2002. This decrease was due to cost reduction programs implemented during 2002 and continuing through 2003 including a staffing reduction, fewer marketing expenditures and the completion of several research and development projects.

Research and development expenses were \$294,146 for the six months ended June 30, 2003 and \$1,140,878 for the six months ended June 30, 2002. The decrease is a result of the completion of the integration of some of the video and RFID products allowing for a reduction of employees, the closing a facility in Georgia and the elimination of certain leased equipment.

Corporate general and administrative expenses were \$590,469 for the six months ended June 30, 2003 and \$875,085 for the six months ended June 30, 2002. During the six months ended June 30, 2003 the Company hired a firm to assist in their investor relation activity and did experience an increase in their cost of insurance. However, the Company was able to decrease their overall cost. The decrease can be attributed to a reduction in head count, elimination of contract labor, lower rent with the closure of half of the Texas facility and a reduction of outside legal and accounting service fees.

Selling and marketing expenses were \$138,534 for the six months ended June 30, 2003 and \$816,673 for the six months ended June 30, 2002. The decrease was caused by the Company's strategic shift away from a direct selling (our sales people contacting the end users) approach and an increased reliance on an indirect (focus on us selling to the integrators who sell to the end users) marketing approach. The strategic shift allowed the company to decrease the headcount and lower the advertising. The indirect sales model allows the Company to address multiple industry segments generically, including manufacturing, wholesale / distribution, retail, services, government, education and finance. The indirect sales model fits the characteristics of the Company's product portfolio with other products, which become system solutions that require custom site planning and installation. By working directly with established marketing channel partners, this indirect model also gives the Company the flexibility to introduce new products and application as they are developed.

Depreciation and amortization expenses were \$232,951 for the six months ended June 30, 2003 and \$314,221 for the six months ended June 30, 2002. The decrease is related to lower depreciation expense as a result of the age of the equipment and the closing of the Georgia facility.

Other expenses, net. Other expenses, net, were \$385,902 for the six months ended June 30, 2003 and \$455,103 for the three months ended June 30, 2002. Interest income was \$160,889 lower during the six months ended June 30, 2003, compared to the six months ended June 30, 2002. Interest expense was \$89,001 lower in the six months ended June 30, 2003 compared to the six months ended June 30, 2002, reflecting a decrease in the amortization of the Prism Note. The Company also was able to settle several accounts payable issues relating to prior periods at a discount from the accrued amounts, which resulted in a \$141,089 improvement in Other for the six months ended June 30, 2003 compared to the same period in 2002.

Net Loss. Net loss was \$1,441,001 for the six months ended June 30, 2003, compared to a loss of \$3,445,881 for the six months ended June 30, 2002. The decrease is due primarily to improved gross margins as a result of lower production staffing and lower inventory adjustments, headcount reductions across all departments, reduced rent due to the Georgia facility being closed, a reduction of outside services and gains on settlements of account payables.

Preferred Stock dividend requirements. Preferred Stock dividend requirements were \$674,349 for the six months

ended June 30, 2003 and \$222,374 for the six months ended June 30, 2002. This increase was due to the recording of the beneficial conversion discount of \$474,855 for the 2003 Preferred Stock converted during 2003.

Other

Inflation. Inflation has not had, and is not expected to have, a material impact on the operations and financial condition of the Company.

Item 3. Controls and Procedures

Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. Based on their evaluation as of a date within 90 days of the filing date of this Quarterly Report on Form 10-QSB, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act")) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

(b) Changes in Internal Controls. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Pioneer Standard Electronics, Incorporated ("Pioneer"), filed a lawsuit against the Company in the county court in Dallas County, Texas on September 28, 2001. Pioneer was a vendor to the Company and seeks damages of \$81,533 for non-payment for services provided. During the first quarter of 2003, Pioneer was granted a judgment for the entire amount. The Company has reached a settlement with Pioneer and is making payments.

The Company is also engaged in a number of lawsuits with approximately fifteen vendors who claim they are owed amounts from \$500 to \$45,000, which aggregate in total \$251,117. The Company is currently defending or seeking to settle each of the vendor's claims. At June 30, 2003, the Company has accrued the delinquent amounts payable for the claims described in this paragraph.

Item 2. Changes in Securities.

During the three months ended June 30, 2003, the Company issued unregistered securities in connection with the transactions described below. The issuance of stock was exempt from the registration requirements of the Securities Act, as amended by virtue of Section 4(2) thereof, as transactions not involving a public offering and an appropriate restrictive legend was affixed to the stock certificates.

Note Borrowings

The Company entered into a 6.75% convertible note with Amphion Investments LLC dated January 25, 2002. During the three months ended March 31, 2003, the Company borrowed \$50,000 under this note. The principal outstanding under this note may be converted into securities of the Company at the option of Amphion Investments. The borrowings are unsecured and are due and payable on demand by Amphion Investments. The Company repaid the \$50,000 it borrowed plus interest during the three months ended June 30, 2003.

Preferred Stock Issued

The Company completed a \$1,537,500 exempt Preferred Stock Offering during May of 2003. The Preferred Stock is designated as 2003 Preferred and each \$75,000 unit consisted of 100,000 shares of Preferred Stock bearing a 7% dividend approximately 15,000 shares of Common Stock and 100,000 warrants to purchase the Company's common stock exercisable for two years at \$1.00 per share. The offering also included an automatic conversion into Common Stock on a one for one basis if the closing twenty-day average stock price is over \$2.00. On June 5, 2003 the closing twenty-day average was at \$2.02 and the 2003 Preferred converted to 2,050,001 shares of Common Stock.

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

Exhibit No.	Description
10.1	2003 Preferred Stock Purchase Agreement dated as of May 15, 2003, between the Company and certain investors.*
31.1	Certification of our President, Chief Executive Officer and Principal Executive Officer, under Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of our Vice President, Chief Financial Officer, Secretary and Principal Accounting and Financial Officer, under Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of our President, Chief Executive Officer and Principal Executive Officer, under Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of our Vice President, Chief Financial Officer, Secretary and Principal Accounting and Financial Officer, under Section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed herewith

(b) Reports on Form 8-K:

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AXCESS INC.,
Registrant

/s/ ALLAN GRIEBENOW

Allan Gribenow Director, President and
Chief Executive Officer (Principal Executive Officer)

/s/ ALLAN L. FRANK

Allan L. Frank
Chief Financial Officer and Secretary
(Principal Accounting and Financial Officer)

August 13, 2003

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